

From: Graves, Brian
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To: Bierschenk, Arnold; Dellinger, Philip; Dorsey, Nancy; Frazier, Mike; Graves, Brian; Harvill, Jana; Hurlbut, Bill; Johnson, Ken-E; Martinez, Omar; Moreno, Miguel; Overbay, Michael; Pham, Lisa; Ray, Lauren; Tingey, Christopher; Torres, Jose; Lawrence, Rob; Bates, William; Brown, Jamesr; Hildebrandt, Kurt
Subject: BNA interview with Commissioner Craddick of RRC (seismicity discussion highlighted)

Christi Craddick: 'We're in a Dip' in Oil, Gas Industry

The Railroad Commission of Texas is a state agency tasked with regulating the oil, gas and surface mining activity in Texas. Elected in 2012, Christi Craddick is one of the three commissioners at the agency. Her six-year term ends in 2018. As an attorney, Craddick specializes in oil and gas, water, tax issues, electricity deregulation and environmental policy. Bloomberg BNA's Nushin Huq spoke with Craddick to ask about the commission's role in regulating the oil and gas industry in Texas and what is in the pipeline at the commission. This interview has been edited for length and clarity.

Bloomberg BNA:

In October, the railroad commission announced that it conducted more oil and gas inspections in fiscal year 2015 than 2014 and the number of enforcement cases it closed was the highest in seven years. What is the reason behind the increase?

Christi Craddick:

First and foremost, when the industry is busy, we always see more contested cases and more activity in our cases. But we're also making sure we're finding more efficiencies in our processes in the hearings division. We have a division that's specifically for hearings at this agency for contested cases, so we're trying to make sure that division works more efficiently and accurately when they're doing [enforcement] hearings and they're more timely in getting them out so that may be part of the reason why we've seen an uptick as well. Frankly, we've really had a focus this past year on having our cases out more timely. So that's why instead of letting things sit potentially but having them out more timely, that's been a focus at least from my end, being the attorney sitting on the commission, I like to have timeliness on cases. I think that helpful for all parties.

Bloomberg BNA:

This time last year, Denton passed a ban on hydraulic fracturing. Though you disagreed with the ban, you also stated the importance of communicating/ having a dialogue with communities regarding hydraulic fracturing. What do you see is the commission's role with facilitating communication between industry and communities?

Craddick:

I've said this multiple times. I think the industry and the agency have not done a great job communicating what either one of us do, and so one of our focuses as we go forward at the commission is really communication between communities and trying to be a facilitator between all groups so we can keep this industry going that is an important part of our state's economy but also make sure we're doing it safely and environmentally friendly and that all parties know what's going on out of the commission. We are in the process of upping the number of people we have in our communications staff at the commission. We're now tweeting and Facebooking out of the commission and going more so out into the communities when asked and also doing community workshops and meetings and conferences with community leaders so that they understand what the commission does. We do have rules and regulations; we are out inspecting. So that's a real focus for us long term.

Bloomberg BNA:

Do the increased efficiencies you spoke about earlier play into communicating with people that the commission is out there doing inspections? There are press releases about the commission closing a record number of enforcement cases compared to a perception by some that the railroad commission isn't doing enough to regulate the oil and gas industry.

Craddick:

I think that's part of what we're trying to do as an agency: explain to people what we do. If they have questions, they know to call the railroad commission and be more engaged with communities specifically about what we do do. So, I think your characterization is a fair characterization.

Bloomberg BNA:

Earlier this year, you directed the commission's executive director to explore the potential need for an emphasis on inspections in drill site areas in highly populated areas, urban areas. What's the status of that study and does this tie in with the public outreach you've been advocating?

Craddick:

It is about public outreach. We did an internal analysis of what we may or may not need as far as additional communication. What we determined for us [is that] efficiently and financially the best role is for us to take our Austin staff and send them out to communities. We also have nine field offices all over the state with office directors [and want to] get them more engaged and to make sure we are effectively answering people's questions. We've got a better process when people call, whether you're an operator or general public, that we're definitely making sure we answer the phone and address questions on top of going out to communities. We've determined based on our analysis of how best to work with our agency that we are going to continue to send people out from Austin to wherever we are requested and needed. That's our best line of attack at this point. We'll continue to follow that and make sure that's the best process for us.

Bloomberg BNA:

Have you seen an uptick in requests for sending out personnel from Austin?

Craddick:

We have. We actually have increased our communications team from one from when I got here to five at this agency only. We have one woman that goes out and does what I call oil and gas 101 in communities and does a really good job explaining about oil and gas and what the commission does. I think that's part of our role and should be part of our role as an agency. We want to work within communities. We want to be efficient and effective and have good community relations too, and I think that's a long term goal for us.

Bloomberg BNA:

House Bill 40 said oil and gas regulation falls to the Texas Railroad Commission. It also gives home-rule municipalities authority to set rules that govern things like noise, nuisance, etc. Last month at the Texas Tribune Festival there was a panel discussion on energy in the Legislature. One of the state reps on the panel said that while H.B. 40 puts into law what the cities govern and what the state governs, there is some gray area that might have to be cleared up in the courts. What do you see as the gray area in the law?

Craddick:

From the Railroad Commission's perspective, there's not a gray area that I'm aware of. Our job historically, and I think [it] was clarified in House Bill 40, is that we regulate the oil and gas in this state. And so, for instance, if you are an operator and want to drill a well, come get a permit from the Railroad Commission to come drill a well. That has been our role and will continue to be our role. I'm not sure that there is a specific gray area from the railroad commission's perspective.

Bloomberg BNA:

Last year, the commission released new rules for disposal well permits related to seismic events. Southern Methodist University has done research in this area. What type of seismic research is the commission considering conducting?

Craddick:

The commission historically hasn't done research. We're not a research organization. We're a regulatory body. So we are continuing to work with different groups to get more data and information. We think that's very important. We have a gentleman on staff, Dr. Craig Pearson, who the commission hired almost 18 months ago to be our seismologist and work with all parties whether it's researchers or operators and/or communities, to look at the science behind seismic activity in the state. We appreciate SMU and their studies and other groups that are out there, as well as operators and information they bring to us so we can put best rules in place and make sure if there is an issue that's related to seismicity and oil and gas, we have the appropriate rules in place.

Bloomberg BNA:

Also related to seismic activity, there are two pending show cause cases regarding disposal wells in Azle, Texas. The investigators proposed that those wells be able to keep their permits, and that currently there isn't any evidence to say that the activity at the well did or did not cause the earthquakes. You have the peer-reviewed SMU study as well as data from the companies. How does the commission approach the issue of seismic events when presented with contradictory data?

Craddick:

Well first and foremost, the show cause hearing is on our docket for tomorrow [Nov. 3], so I can't comment on those. There are proposals for decisions from staff based on hearings we've had. We have not made a final determination on those cases. That's as much as I can say on that. Secondly, we appreciate the collection of data that SMU has done and other groups have done. We obviously use them to assess our rules and other information we get in. We are a very science, fact-based agency. Every permit we look at— that's very important to us. But we're not a research agency. That's

not what we've been tasked to do. We do go out and investigate and collect data and make sure we have the best rules in place.

Bloomberg BNA:

Last year, TRRC revised rules on permitting for disposal wells as well as permits for common carriers. What's in the pipeline right now as far as rule changes or new rules, projects at the commission?

Craddick:

We've got four right now sitting out there. We're taking comments on some of them and some we're done taking comments on, but we haven't finalized any of them.

The first one is amendments that came out of House Bill 1, which has to do with mining. We do surface mining in this state for coal mines. This specific rule has to do with complying with legislative initiatives that came out as far fees, permit costs. I think we've closed the comment period on that rule, but we'll see something from staff later this year potentially.

The second one, I think the comments closed today [Nov. 2] on this rule, implementing a new fee for our ground water advisory unit letter. Before you can drill an oil and gas well in this state, you have to get what we call a ground water advisory unit letter from this agency. The letter states where the usable quality water is and how far below that usable quality water you need to cement and case to protect that usable quality water. We have a proposed fee of \$100. We've never collected a fee specific to this letter. The intent of that fee is to recoup costs and manage that part of the agency.

The third rule we've got is in response to Senate Bill 807, which is a statewide rule for all agencies to waive licensing fees for military service members and military veterans. So we're in the process of getting comments for that as well.

The last rule pending is what we call our unconventional fracture treated field rule. It's rules for drilling spacing, drilling permits and spacing issues from vertical wells. Still allowing for vertical wells, but morphing it to horizontal wells as well and making that a statewide rule. Right now we just have some of those rules in a case by case basis, depending on the field. Again, we're still getting comments back on that.

Those are the four rules, which is a pretty active rule world for us at this point. We hope to have closed comments by the end of this year for all four of them. We'll see them implemented, some of them by the end of this year and some of them early next year.

Bloomberg BNA:

Looking ahead to 2017 to when the Legislature addresses the TRRC sunset provision: Are those pretty standard extensions? What are some issues the commission will bring up in any legislative discussions?

Craddick:

We've gone through sunset, this is now the third time in six years. We feel as an agency overall that we've addressed the issues the Legislature started out with in 2010-2011, when we first started this cycle of sunset. We are looking forward to continuing to work with sunset commission staff at this point and the commission and the Legislature. I think we've become much more transparent. They are now understanding much better what we do as an agency. I'm very hopeful that we will continue to be a very strong agency and get through sunset successfully this cycle.

Bloomberg BNA:

Finally, what are your goals for the rest of your tenure?

Craddick:

When I look at where we've been, we've accomplished a lot at this agency. We've done best practice rules in place. Pipelines or new casing rules [and], water recycling rules are some key rules we've done at this agency. We've improved our GIS mapping. Doing our IT upgrade has made us more efficient and more transparent, I believe. Obviously, communication is very important, public communication, both to the public and to anyone that is interested in what's going on in oil and gas. Continued communication out of this agency is very, very important. And we get into this next legislative session, obviously, we've talked about sunset. The other piece for us is we're a fee-based agency. So as the industry is doing well we have more dollars coming in, and when they're not drilling as much, we have fewer dollars coming in. So, continuing to keep our good personnel at our agency, qualified people as well as be aware that we're in a dip right now for this industry, so managing that effectively is important. Long term, making sure we have best practices in this agency and continue to be a leader out of the Railroad Commission for not just the oil and gas industry in Texas but in the country and across the world. I think that's really important for this industry and for the agency to be able to do that.